October 26, 1999

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
Francis Marion University
Florence, South Carolina

This report on the audit of the financial statements of Francis Marion University for the fiscal year ended June 30, 1999, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/jap

FRANCIS MARION UNIVERSITY

FLORENCE, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1999

FRANCIS MARION UNIVERSITY

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YEAR ENDED JUNE 30, 1999

INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying basic financial statements of Francis Marion University (the University) as of June 30, 1999, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the accompanying basic financial statements of the University are intended to present the financial position, changes in fund balances and current funds revenues, expenditures, and other changes of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the University, an institution of the State of South Carolina. These financial statements do not include other agencies, institutions, departments, or component units of the State of South Carolina primary government.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 1999, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

These financial statements exclude the related entity described in Note 15 from the reporting entity because the University is not financially accountable for this entity. As part of its affiliated organizations project, the Governmental Accounting Standards Board (GASB) is currently studying other circumstances under which related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.

As discussed in Note 20, errors in the application of accounting principles regarding the proper classification of certain revenues and transfers were discovered by management. The memorandum only comparative totals for the prior year have been restated.

The year 2000 supplementary information on page 34 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue, its effects, the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established, and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. In addition, we do not provide assurance that the University is or will become year 2000 compliant, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which it does business are or will become year 2000 compliant.

August 13, 1999

FRANCIS MARION UNIVERSITY

BALANCE SHEET
JUNE 30, 1999
with totals as of June 30, 1998

	CURRENT FUNDS				PLANT FUNDS				TOTALS (MEMORANDUM ONLY)	
	Unrestricted	Restricted	Loan Funds	Endowment Fund	Unexpended	Retirement of Indebtedness	Investment in Plant	Agency Funds	1999	1998
ASSETS										
Cash & cash equivalents	$ 1,385,902	$ 406,579	$ 141,774	$	$ 746,640	$ 3,900,787	$	$ 101,064	$ 6,682,746	$ 8,050,426
Accounts receivable, net of provision for doubtful accounts $12,685	306,669		30,583		4,601			2,401	344,254	435,192
Grants and contracts receivable		29,927							29,927	93,307
Interest and investment income receivable		3,041	721		2,584	11,105			17,451	55,169
Due from restricted current funds	21,077								21,077	
Prepaid expenditures	435,011	200							435,211	224,063
Inventories	597,881								597,881	589,542
Student notes receivable			1,527,714						1,527,714	1,402,274
Capital improvement bonds proceeds receivable										343,237
Note receivable				200,000					200,000	
Land							632,392		632,392	632,392
Non-structural improvements							5,913,725		5,913,725	5,859,881
Buildings							52,609,583		52,609,583	52,533,197
Equipment							2,811,855		2,811,855	3,020,785
Library							10,201,626		10,201,626	9,802,899
Construction in progress					804,478				804,478	20,110
TOTAL ASSETS	$ 2,746,540	$ 439,747	$ 1,700,792	$ 200,000	$ 1,558,303	$ 3,911,892	$ 72,169,181	$ 103,465	$ 82,829,920	$ 83,062,474
LIABILITIES AND FUNDS EQUITIES										
Accounts payable	$ 67,296	$ 9,921	$	$	$ 41,217	$ 7,688	$	$	$ 126,122	$ 117,515
Accrued payroll and related liabilities	145,106								145,106	149,910
Deferred revenues	282,683								282,683	329,316
Student deposits	162,531								162,531	139,975
Compensated absences payable and related liabilities	1,140,376								1,140,376	1,084,747
Deposits held for others								103,465	103,465	102,061
Accrued interest payable						80,787			80,787	145,774
Due to unrestricted current funds		21,077							21,077	
Obligations under capital leases							64,458		64,458	136,724
Bonds payable							7,245,000		7,245,000	8,200,000
Fund balances	948,548	408,749	1,700,792	200,000	1,517,086	3,823,417			8,598,592	9,144,022
Net investment in plant							64,859,723		64,859,723	63,512,430
TOTAL LIABILITIES AND FUND EQUITIES	$ 2,746,540	$ 439,747	$ 1,700,792	$ 200,000	$ 1,558,303	$ 3,911,892	$ 72,169,181	$ 103,465	$ 82,829,920	$ 83,062,474

See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY

STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1999
with totals for the year ended June 30, 1998

	CURRENT FUNDS				PLANT FUNDS			TOTALS (MEMORANDUM ONLY)	
	Unrestricted	Restricted	Loan Funds	Endowment Fund	Unexpended	Retirement of Indebtedness	Investment in Plant	1999	1998
REVENUES AND OTHER ADDITIONS									
Unrestricted current funds revenues	$ 32,258,274	$	$	$	$	$	$	$ 32,258,274	$ 31,038,706
State appropriations - restricted		1,287,170						1,287,170	618,065
Tuition and fees - restricted						324,950		324,950	323,140
Federal grants and contracts - restricted		2,520,663	34,157					2,554,820	2,063,001
State grants and contracts - restricted		42,748						42,748	78,519
Local grants and contracts - restricted		6,171						6,171	7,227
Private gifts, grants and contracts - restricted		888,280					136,397	1,024,677	637,786
Interest/investment income - restricted		15,045	5,116		8,517	302,822		331,500	558,257
Endowment income - restricted		18,647						18,647	14,614
Interest on loans receivable			23,587					23,587	28,394
U.S. government advances			67,150					67,150	76,853
Expended for plant facilities (including $709,778 charged to current funds expenditures)							895,495	895,495	1,148,694
Retirement of indebtedness (including $7,450,000 of Series 1990 Bonds refunded)							8,238,997		887,400
Cancellation of capital lease							89,558		
Proceeds from refunding bonds						7,169,335			
Other additions			730					[illegible]	[illegible]
TOTAL REVENUES AND OTHER ADDITIONS	32,258,274	4,778,724	130,740		8,517	7,797,107	9,360,447	54,333,809	37,481,703
EXPENDITURES AND OTHER DEDUCTIONS									
Educational and general expenditures	27,451,550	4,640,726						32,092,276	29,452,171
Auxiliary enterprises expenditures	3,644,013	28,117						3,672,130	3,740,076
Indirect cost remitted to the State General Fund	1,755							1,755	6,150
Indirect cost recovered		37,027						37,027	16,505
Loan cancellations and write-offs			22,748					22,748	33,146
Administration and collection cost			34					34	20,195
Expended for plant facilities (including non-capitalized expenditures of $313,136)					442,564				396,580
Addition from capital lease							56,289		114,629
Payments to refunded bond escrow agent						7,788,700			
Retirement of indebtedness						788,997			887,400
Interest, executory and other costs on indebtedness						521,384			632,952
Refunding bonds issued							7,245,000		
Disposals of plant assets							711,865		502,132
Refunds to grantors		[illegible]							3,687
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	31,097,318	4,713,941	22,782		442,564	9,099,081	8,013,154	53,388,840	35,805,623

See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY

STATEMENT OF CHANGES IN FUND BALANCES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 1999
with totals for the year ended June 30, 1998

	CURRENT FUNDS				PLANT FUNDS			TOTALS (MEMORANDUM ONLY)	
	Unrestricted	Restricted	Loan Funds	Endowment Fund	Unexpended	Retirement of Indebtedness	Investment In Plant	1999	1998
TRANSFERS AMONG FUNDS - ADDITIONS/(DEDUCTIONS)									
Mandatory transfers for:									
Principal, interest, executory and other costs	(3,063,474)					3,063,474			
Loan fund matching grant	(22,383)		22,383						
Nonmandatory Transfers:									
From Unrestricted Current Fund	(183,838)				183,838				
From Retirement of Indebtedness Fund	2,020,635				204,670	(2,225,305)			
From Unexpended Plant Fund	77,080				(77,080)				
TOTAL TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)	(1,171,980)		22,383		311,428	838,169			
NET INCREASE (DECREASE) FOR THE YEAR	(11,024)	64,783	130,341		(122,619)	(463,805)	1,347,293	944,969	1,676,080
FUND BALANCES - BEGINNING OF YEAR									
As previously reported	959,572	344,584	1,573,596	200,000	1,662,174	4,404,096	63,512,430	72,656,452	70,980,372
Prior period adjustments		(618)	(3,145)		(22,469)	(116,874)		(143,106)	
As restated	959,572	343,966	1,570,451	200,000	1,639,705	4,287,222	63,512,430	72,513,346	70,980,372
FUND BALANCES - END OF YEAR	$ 948,548	$ 408,749	$ 1,700,792	$ 200,000	$ 1,517,086	$ 3,823,417	$ 64,859,723	$ 73,458,315	$ 72,656,452

See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1999
with totals for the year ended June 30, 1998

	1999			1998
	Unrestricted	Restricted	Totals	Totals
REVENUES:				
Student fees	$ 12,359,319	$	$ 12,359,319	$ 12,012,797
State appropriations	14,682,487	1,287,170	15,969,657	14,652,912
Federal grants and contracts	79,350	2,483,540	2,562,890	2,125,388
State grants and contracts	20,094	39,144	59,238	92,781
Local grants and contracts		7,022	7,022	25,208
Private gifts, grants and contracts	262,281	814,508	1,076,789	889,305
Interest/investment income	5,296	22,845	28,141	27,528
Endowment income		14,614	14,614	15,777
Sales and services of auxiliary enterprises	4,597,162		4,597,162	4,370,940
Other sources	252,285		252,285	219,717
TOTAL CURRENT REVENUES	32,258,274	4,668,843	36,927,117	34,432,353
EXPENDITURES AND MANDATORY TRANSFERS:				
Educational and general:				
Instruction	12,005,441	185,834	12,191,275	12,017,713
Research	36,094	6,732	42,826	35,554
Public service	214,583	185,935	400,518	352,033
Academic support	3,098,008	28,719	3,126,727	2,520,598
Student services	2,928,623	59,245	2,987,868	2,815,316
Institutional support	4,144,821	41,900	4,186,721	3,931,502
Operation and maintenance of plant	3,431,561	5,867	3,437,428	3,477,764
Scholarships and fellowships	1,592,419	4,126,494	5,718,913	4,301,691
TOTAL EDUCATIONAL AND GENERAL EXPENDITURES	27,451,550	4,640,726	32,092,276	29,452,171
Mandatory transfer for:				
Loan fund matching grant	22,383		22,383	25,618
Principal, interest, executory and other costs	63,501		63,501	59,805
TOTAL EDUCATIONAL AND GENERAL	27,537,434	4,640,726	32,178,160	29,537,594
Auxiliary enterprises:				
Expenditures	3,644,013	28,117	3,672,130	3,740,076
Mandatory transfer for principal and interest	2,999,973		2,999,973	2,652,771
TOTAL AUXILIARY ENTERPRISES	6,643,986	28,117	6,672,103	6,392,847
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	34,181,420	4,668,843	38,850,263	35,930,441
OTHER TRANSFERS AND ADDITIONS/(DEDUCTIONS):				
Indirect cost remitted to State General Fund	(1,755)		(1,755)	(6,150)
Nonmandatory Transfers from Plant Funds	2,097,715		2,097,715	2,310,639
Nonmandatory Transfers to Plant Funds	(183,838)		(183,838)	(531,163)
Nonmandatory Transfer from Loan Funds				12,225
Refunds to grantors		(8,071)	(8,071)	(3,687)
Excess of restricted receipts over (under) transfers to revenues		72,854	72,854	(19,870)
TOTAL TRANSFERS AND OTHER ADDITIONS (DEDUCTIONS)	1,912,122	64,783	1,976,905	1,761,994
NET INCREASE/(DECREASE) IN FUND BALANCES	$ (11,024)	$ 64,783	$ 53,759	$ 263,906

See accompanying Notes to Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of Francis Marion University (the University) conform to generally accepted accounting principles (GAAP) applicable to the governmental colleges and universities model as defined in the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide Audits of Colleges and Universities recognized by the Governmental Accounting Standards Board (GASB). GASB is the recognized standard - setting body for GAAP for all State governmental entities including colleges and universities. Those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 are authoritative provided they do not contradict or conflict with GASB guidance. However, GAAP prohibits the application of FASB guidance by governmental colleges and universities after that date. A summary of significant accounting policies follows.

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The University reports as part of the State's primary entity.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary government or entity that holds one or more of the following powers:

(1) Determines its budget without another government's having the authority to approve and modify that budget.
(2) Levies taxes or sets rates or charges without approval by another government.
(3) Issues bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the University has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only the University (a primary entity).

The University is a State-supported, coeducational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total operating funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The University was established as an institution of higher education by Section 59-101-10 of the Code of Laws of South Carolina. The University, located in Florence, South Carolina, is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Reporting Entity (Continued)

The University is governed by a Board of Trustees which is composed of the Governor of the State or his designee, who is an ex officio member of the board, and sixteen other members. Fifteen of the members are elected by the General Assembly and one member is appointed from the State at large by the Governor. The Board administers, has jurisdiction over, and is responsible for the management of the University.

The accompanying financial statements present the financial position, changes in fund balances, and current funds revenues, expenditures, and other changes of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University.

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant assets, interest on loans to students is recorded when collected, and revenues from tuition and student fees for summer sessions are reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and expenditures are reported when materials or services are received or when incurred. Unrestricted state appropriations are recognized as revenue when received or made available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant (e.g., construction, repairs, debt amortization, and interest); agreements to match gifts and grants; or required matching of certain federal loan programs. All other interfund transfers are reported as nonmandatory transfers.

To the extent that current funds are used to finance physical plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of alterations and renovations and purchases and normal replacement of movable equipment and library materials and books; (2) mandatory transfers in the case of required provisions; and, (3) transfers of a nonmandatory nature in all other cases.

Fund Accounting

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use in achieving any of its institutional purposes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Fund Accounting (Continued)

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment funds which is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds.

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds.

The *Current Funds* group includes those economic resources which are expendable for operating purposes to perform the primary missions of the University, which are instruction and public service. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for auxiliary enterprises operations in the unrestricted and restricted current funds. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University’s flexibility in their utilization. Unrestricted gifts are recognized as revenue when received and other unrestricted resources are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year and met all related requirements.

The *Current Funds Auxiliary Enterprises* are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as unrestricted and restricted current funds. Assets, liabilities, and fund balances are combined with other current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance. Auxiliary enterprise activities include housing, bookstore, food services, and telecommunications operations. The portion of the University's unrestricted current funds balance related to its auxiliary enterprises was $503,494 at June 30, 1999. Auxiliary enterprise expenditures charged to restricted current funds were for the Federal Work Study program, which is federally funded, and, is therefore subject to federal restrictions.

The *Loan Funds* group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations, uncollectible loan write-offs, and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Fund Accounting (Continued)

The *Endowment Fund* group includes only permanent endowment funds; the University does not have any term endowment funds or funds functioning as endowments (quasi-endowments). Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. The University's endowments require the income to be used for specified purposes. Term endowment funds are similar to endowment funds except that, upon the passage of a stated period of time or the happening of a particular event, all or a part of the principal may be expended. While quasi-endowment funds are established by the governing board for the same purposes as permanent endowment funds, subject to any restrictions imposed by the donor of the resources, any unrestricted portion of the principal as well as income may be expended at the discretion of the governing board. The term "principal" is construed to include the original value of an endowment and subsequent additions and realized gains/losses attributable to investment transactions.

The *Plant Funds* group consists of three self-balancing subgroups: (1) unexpended plant funds, (2) funds for retirement of indebtedness, and (3) investment in plant. The unexpended plant funds subgroup accounts for the resources derived from various sources to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets, all construction in progress, and debt related to expended or unexpended resources included in this fund subgroup. Receipts legally designated solely for plant improvements or renewals and replacements are recorded directly in the University's plant funds as revenue. The retirement of indebtedness subgroup accounts for resources that are specifically assessed and/or specifically accumulated for interest and principal payments, debt service reserve funds, and other debt service charges related to plant fund indebtedness. The investment in plant subgroup accounts for all long-life assets in the service of the University and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

The *Agency Funds* group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of the University. They include the accounts for Francis Marion University Foundation, a related party and other organizations and groups directly associated with the University.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Indirect Cost Recoveries

The University records restricted current funds revenue for governmental grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the University. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund. For fiscal year 1999, the University retained all indirect cost recoveries after December 31, 1998.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. This policy also applies to 12-month academic employees while academic employees working less than 12 months are not entitled to accrue annual leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory overtime leave earned for which the employees are entitled to paid time off or payment at termination. The University calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payment at termination. That liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is recorded in unrestricted current funds. The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

Investment in Plant

Physical plant and equipment, except for plant assets acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Equipment additions purchased through capital leases or installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest and other related charges. Equipment acquired under capital leases is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. Resources for the payments of principal, interest and other related costs on such contracts are recorded as transfers from the current funds group and the debt service expenditures are reported in the retirement of indebtedness plant fund as the installments are paid.

Infrastructure assets include streets, sidewalks, parking lots, drainage systems, lighting systems, utility systems, and similar assets that are immovable and of value only to the University which reports these assets as nonstructural improvements and values them at cost.

Construction in progress is valued at total cost less noncapitalized costs in the unexpended plant funds subgroup when the costs are incurred. Upon completion of a project, the capitalized costs are recorded as expenditures in the unexpended plant funds and the asset and any associated debt simultaneously are transferred to the investment in plant funds subgroup and recorded in the appropriate asset and liability accounts. Other capitalizable expenditures (which don't constitute construction in progress) are recorded at cost in unexpended plant funds when the expenditures are incurred and simultaneously capitalized at the value of total expenditures less noncapitalized costs in the appropriate plant fund asset accounts in the investment in plant subgroup in the current year.

Library books, periodicals, microfilms and other library materials on computer data storage devices are recorded at cost when purchased and fair market value at the date of donation.

Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts of various operating departments and in the investment in plant funds subgroup.

The University capitalizes major additions and renovations to plant assets; qualifying equipment with a unit value in excess of $5,000 and a useful life in excess of one year; and library additions of books, periodicals and microfilms, and the other materials on computer data storage devices.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Investment in Plant (Continued)

When plant assets are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical cost, or fair market value at date of gift, where applicable, is removed from the investment in plant subgroup. Library contents are disposed of when they become obsolete, duplicated, worn or no longer support the purpose of the University. The disposal value used for library contents is the average cost at the beginning of each fiscal year. In accordance with practices followed by governmental educational institutions, depreciation on physical plant and equipment is not recorded.

Capitalized Interest

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Asset values in the investment in plant subgroup include such interest costs.

Student Deposits

Student deposits represent housing room deposits, security deposits for possible facility damage and key loss, other deposits, and student fee refunds. Student deposits are recognized as revenue in the unrestricted current funds during the term or semester for which the fees are applicable and earned or when the deposits are nonrefundable to students under the forfeit terms of agreements.

Deferred Revenues

In unrestricted current funds, deferred revenues primarily consist of receipts collected in advance for tuition, various fees, and housing for the summer and fall academic terms which amounts have not been earned. Revenues are recognized in the period in which the sessions are predominantly conducted and services are provided or the term or semester for which the fees are applicable and earned.

Fee Waivers

Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures. The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

Prepaid Expenditures

Expenditures for goods and services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. For the University, amounts reported in this asset account consist primarily of advance payments for insurance, subscriptions and periodicals, and maintenance and service agreements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Cash and Cash Equivalents

The amounts shown in the financial statements in University funds as “cash and cash equivalents” represent petty cash, cash on deposit with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State’s internal cash management pool.

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 14.

The State’s internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund’s equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The University records and reports its deposits in the general deposit account at cost, and records and reports its deposits in the special deposit accounts at fair value. Interest earned by the University’s special deposit accounts is posted to the University’s account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the University’s accumulated daily interest receivable to the total income receivable of the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the pool.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less.

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the “excess” earnings to the Federal Government under certain circumstances if they issue no more than $5 million in total of all such debt in a calendar year or if they meet specified targets for expenditures of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the liability is calculated annually. The arbitrage expenditures are valued using the rebate method. The expenditure and liability, if any, are recorded in the Retirement of Indebtedness subgroup and a reserve fund to liquidate the liability is established.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Intraentity Transactions and Balances

Transactions that would be treated as revenues or expenditures if they involved organizations external to the University are accounted for as revenues and expenditures in the funds. Reimbursement transactions for expenditures initially made by one fund that are applicable to another are recorded as expenditures in the reimbursing fund. Expenditures initially made by the University for related parties or other external parties and reimbursed by those parties are eliminated. Current amounts due to/from the same funds are reported net on the balance sheet only if there is a legal right to the offset.

Comparative Amounts and Totals (Memorandum Only) Columns

Amounts in the "Totals (*Memorandum Only*)" columns of the Balance Sheet and the Statement of Changes in Fund Balances represent an aggregation of financial statement line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data. Current amounts due to/from the same funds are reported net on the balance sheet only if there is a legal right to the offset.

Comparative amounts and totals for the prior year are included to provide a summarized comparison with current year amounts. The prior year totals are not intended to present all of the information necessary for a fair presentation of financial position and operations in accordance with generally accepted accounting principles.

Certain of the prior year amounts have been restated for the matters discussed in Note 20.

Income Taxes

The University is a political subdivision of the State of South Carolina and is exempt from federal and state income taxes.

NOTE 2. STATE APPROPRIATIONS:

The University is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

The original appropriation is the University's base budget amount presented in the General Funds columns of Section 5G of Part IA of the 1998-99 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 1999:

Original Appropriation	$ 13,318,708
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related Employee Benefits (Proviso 63C.12.)	349,816
Appropriation Allocations from the State Commission on Higher Education:	
From the Children's Education Endowment Fund for:	
Palmetto Fellows Scholarships	94,235(A)
Need Based Grants	479,295(A)
For Access and Equity Desegregation Funding (Proviso 5A.7)	6,016
For Performance Funding (Proviso 5A.26)	302,369
For LIFE Scholarships (1998 Act 418)	681,680(A)
From Capital Reserve Fund Appropriations (June 1998 Joint Resolution R537, H4702) for Institutional Funding	704,578
For Higher Education Awareness Program	1,000
From the State Higher Education Matching Gift Fund for Academic Endowment Match	3,446(A)
For STAR Scholarships	28,514(A)
Revised Appropriations – Legal Basis	15,969,657
(A) Less, Higher Education Grant/Scholarship Funding Reported in Restricted Current Funds	(1,287,170)
Funding Reported in Unrestricted Current Funds	$14,682,487

Proviso 72.48. of the 1999-2000 Act authorizes agencies to carry forward unspent appropriations up to a maximum of ten percent of its original appropriation less any appropriation reductions. However, the University did not carry forward any appropriations pursuant to this proviso.

FRANCIS MARION UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 3. CAPITAL IMPROVEMENT BONDS:

In fiscal year 1997, the State authorized funds for improvements and expansion of university facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue and the bond issue costs as expenditures in the unexpended plant funds subgroup. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The University is not obligated to repay these funds to the State. The total balance for the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bond proceeds receivable."

A summary of the activity from this authorization during the year ended June 30, 1999, follows:

Act	Total Authorized	Amounts Drawn in Prior Years	Amount Drawn in Fiscal Year Ended June 30, 1999	Undrawn Balance June 30, 1999
111 of 1997	$875,250	$532,013	$343,237	$0

NOTE 4. BONDS PAYABLE:

At June 30, 1999, bonds payable consisted of the following liability which is reported in the investment in plant subgroup:

	Interest Rates	Maturity Dates	June 30, 1999 Balance	Fiscal Year 2000 Maturities
Revenue Refunding Bonds, Series 1999	3.00 – 4.40%	2000-2011	$7,245,000	$885,000

In accordance with the series 1999 bond indenture, net revenues received from the operation of various facilities, including dormitories and other dwelling units, bookstore and other University operated stores, laundry, dining facilities, parking facilities and any other similar facilities, is restricted, up to the amount of annual debt service requirements for the payment of principal and interest on the revenue bonds. Also, the University purchased a bond insurance policy in favor of the bond trustee for the Series 1999 bonds. The insurance covers the payment of principal and interest for a period equal to the final maturity of the bonds in the case of default.

On March 1, 1999, the University issued $7,245,000 in Revenue Refunding Bonds, Series 1999 with an average interest rate of 4.14 percent. The net proceeds of the Series 1999 bonds plus an additional $625,500 in University debt service funds were used to refund the Student and Faculty Housing Revenue Bonds, Series 1990 and to pay $338,700 of accrued interest and $250,000 of principal thereon at the time of defeasance.

NOTE 4. BONDS PAYABLE: (CONTINUED)

The sources and uses of the funds attributable to the refunding are as follows:

Sources:		
Proceeds from Series 1999 bonds net of discount (after deducting $43,470 in bond discount and $32,195 in bond issuance costs)		$7,169,335
Excess University debt service reserve funds used		625,500
Total		$7,794,835
Uses:		
Refunding of Series 1990 Bonds:		
Principal balances refunded	$7,450,000	
Accrued interest deposited	338,700	$7,788,700
Escrowed funds for bond issuance costs not expected to be expended		6,135
Total		$7,794,835

The refunding proceeds of $7,788,700 required for principal and interest were used to purchase United States government securities which were deposited in an irrevocable trust with a commercial bank as escrow agent to provide for all of the future debt service payments on the Series 1990 bonds. The University engaged in advance refunding to reduce its debt service over the next twelve years and to remove itself from certain restrictive covenants associated with the refunded bonds. As a result of the refunding, the University's total debt service payments over the next twelve years will decrease by approximately $1,700,000, and the University will obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately $720,000. The defeasance transactions are reported in the retirement of indebtedness and investment in plant fund subgroups.

The bond document also outlines certain covenant terms to secure the bonds. For the Revenue Refunding Bonds, the University must maintain its rates and charges at amounts necessary to maintain certain specified earning levels. Also, the University must generate net revenues available for debt service of not less than 100% of debt service payments due in each bond year.

In addition, the University must establish and maintain various funds with a trustee for payment of principal and interest. Amounts received in excess of the required deposit minimum may be expended at the discretion of University officials.

The University’s debt service reserve requirement at June 30, 1999, for the Series 1999 revenue refunding bonds was $724,500 and the balance on deposit was $724,500. A debt service reserve equal to the lesser of 100% of the maximum remaining annual principal and interest payment or 10% of the outstanding bond proceeds is required. The University elected to satisfy the requirements by funding the debt service reserve fund in the amount of $724,500 (10% of outstanding bond proceeds).

The Series 1999 revenue refunding bonds are not subject to redemption prior to maturity.

NOTE 4. BONDS PAYABLE: (CONTINUED)

The University defeased the Series 1990 bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments (principal and interest) on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. At June 30, 1999, $7,200,000 of bonds outstanding is considered defeased.

All of the bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the revenue bond obligations as of June 30,1999, are as follows:

Year Ending June 30,	Principal	Interest	Total
2000	$ 885,000	$ 300,067	$1,185,067
2001	930,000	250,435	1,180,435
2002	980,000	215,560	1,195,560
2003	1,000,000	178,810	1,178,810
2004	370,000	141,310	511,310
2005 through 2011	3,080,000	543,497	3,623,497
Total Obligations	$7,245,000	$1,629,679	$8,874,679

Receipts from a campus development fee and a plant fee designated solely for the purpose of debt retirement are recorded directly in the funds for retirement of indebtedness as tuition and fees revenues. Mandatory transfers from auxiliary enterprises revenue for debt retirement are reflected as transfers from unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

The University reported interest expenditures of $497,763 related to bonds payable for the year ended June 30, 1999 and retired $750,000 of bonds payable during the fiscal year (excluding $338,700 of accrued interest and $250,000 of principal **paid by refunding** the Student and Faculty Housing Revenue Bonds, Series 1990).

NOTE 5. LEASE OBLIGATIONS:

The University is obligated under various operating leases for the use of copier equipment. In addition, the entity is obligated under capital leases for the acquisition of various equipment.

Future commitments for capital leases and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 1999 were as follows:

Year ending June 30,	Capital Leases/ Equipment	Operating Leases/ Equipment
2000	$ 18,822	$ 52,186
2001	18,822	52,186
2002	18,822	52,186
2003	18,478	46,160
2004	6,121	13,306
Total minimum lease payments	$ 81,065	$ 216,024
Less: Interest	(7,513)	
Executory and other costs	(9,094)	
Principal outstanding present	$ 64,458	

NOTE 5. LEASE OBLIGATIONS: (CONTINUED)

Capital Leases

During the current fiscal year, the University surrendered a copier in satisfaction of a capital lease. The capitalized value of the asset surrendered was $97,506 and the balance cancelled in the capital lease was $89,558. The surrender of the copier with a carrying value of $97,506 is reported in disposals of plant assets in the investment in plant fund. During the current year the University entered into a capital lease for another copier in the total amount of $56,289. Capital leases are generally payable in monthly installments from unrestricted current funds resources and have terms expiring in various fiscal years 2003 and 2004. Capital lease expenditures for fiscal year 1999 were $62,618, of which $38,997 represented principal and $23,621 represented interest, executory and other costs. Interest rates range from 5.1% to 5.2%. The following is a summary of the carrying values of assets held under capital lease at June 30, 1999.

Copier and stapler	$73,412

Certain capital leases provide for renewal and/or purchase options. Generally purchase options at bargain prices of one dollar are exercisable at the expiration of the lease terms.

Operating Leases

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2003 through 2004. Certain operating leases provide for renewal options for periods from one to three years at their fair rental value at the time of renewal. All agreements are cancelable if the State of South Carolina does not provide adequate funding. In the normal course of business, operating leases are generally renewed or replaced by other leases and are generally payable on a monthly basis.

Total operating lease expenditures for fiscal year 1999 were $73,916 for copier equipment, including maintenance and additional copy charges. The University reports these costs in the applicable current funds functional expenditure categories.

NOTE 6. NONMANDATORY TRANSFERS:

Debt service funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service and facility operating costs as required by bond indentures and law. Tuition, fees and other revenues pledged for debt service when collected remain in the debt service accounts of the retirement of indebtedness fund subgroup until they are transferred by the State Treasurer into the general capital improvements funding accounts. For plant improvement bonds issued by the University, a written request for the transfer of funds in excess of required minimum balance is submitted by the University to the State Treasurer. As needed, monies are transferred from the general capital funding account to specific capital projects accounts. For the most part, institutions are authorized to make transfers for specific projects with notification to the State Treasurer.

The University reports its general capital funding account in the retirement of indebtedness subgroup and the unexpended balance thereof as unrestricted fund balance. $1,522,518 was transferred into the general capital improvements funding accounts during the fiscal year ended June 30, 1999.

In fiscal year 1999, the University transferred $204,670 from the general capital improvements funding account to the unexpended plant funds subgroup to finance specific capital projects. That transaction is reported as a nonmandatory transfer and the unexpended balances in all such project accounts are reported in the unexpended plant funds as restricted fund balances.

The University transferred $2,020,635 from the retirement of indebtedness funds subgroup to unrestricted current funds for operating expenditures of food services and housing auxiliary enterprises.

NOTE 6. NONMANDATORY TRANSFERS: (CONTINUED)

The University transferred $183,838 from unrestricted current funds to the unexpended plant funds to fund current and future construction projects.

The University transferred $77,080 from the unexpended plant fund to the unrestricted current fund for scholarships. This transfer resulted from college fees paid by the students that had gone into a renovation reserve fund. In 1989, the University's Board of Trustees designated these fees for a Programs Enhancement Fund to be used to enhance any existing or future programs of the University.

NOTE 7. PENSION PLANS:

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 9.58 percent which included a 2.03 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent years ended June 30, 1999, 1998 and 1997 were approximately $957,600, $950,100 and $942,700, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid in the current fiscal year employer group-life insurance contributions of approximately $19,000 at the rate of .15 percent of compensation. In addition, the University paid the employer's 7.55 percent share of approximately $5,800 of pension costs for employees on educational leave with the employees paying approximately $4,600.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement system. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

NOTE 7. PENSION PLANS: (CONTINUED)

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55 can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 12.33 percent which, as for the SCRS, included the 2.03 percent surcharge. The University's actual contributions to the PORS for the three most recent years ended June 30, 1999, 1998 and 1997 were approximately $29,300, $31,200 and $28,300, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately $600 and accidental death insurance contributions of approximately $600 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each retirement plan. Employee and employer contribution rates to SCRS (and PORS) are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension liabilities obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the University's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in plans.

At retirement, employees participating in the SCRS or PORS may receive additional service credit (at a rate of 20 days equal to one month of service) for up to 90 days for accumulated unused sick leave.

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's four-year higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 2.03 percent from the employer in fiscal year 1999.

NOTE 7. PENSION PLANS: (CONTINUED)

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were approximately $283,800 (excluding the surcharge) from the University as employer, and approximately $225,500 from its employees as plan members. In addition, the University paid approximately $5,500 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

NOTE 8. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS:

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 18,900 state retires met these eligibility requirements as of June 30, 1998.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the amount of approximately $999,700 for the year ended June 30, 1999. As discussed in Note 7, the University paid approximately $339,600 applicable to the 2.03 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems earnings; however, a portion of the required amount is appropriated form the State General Fund annually for the SCRS and PORS benefits.

NOTE 9. DEFERRED COMPENSATION PLANS:

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401 (k), and 403 (b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employees. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans also had to comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

NOTE 10. INVENTORIES:

Inventories for internal use (postage and fuel) are valued at cost. Bookstore and dining services inventories for resale are valued at the lower of cost or market. A summary of inventories by category, cost determination method and value at June 30, 1999 follows:

Category	Method	Value
Bookstore	Weighted average	$545,568
Dining Services	First-in, first-out	16,623
Postage	First-in, first-out	21,797
Fuel	First-in, first-out	13,893
Totals		$597,881

NOTE 11. INTERFUND LIABILITIES AND BORROWINGS:

For the most part, the University operates out of one cash account which is recorded in unrestricted current funds. At fiscal year-end, entries are made to properly reflect cash balances by fund group and subgroup and to report interfund liabilities for deficit cash balances in the State's cash management pool accounts by fund. In addition, during the year, certain interfund borrowings occurred. All of the amounts are payable within one year without interest. The restricted current funds were obligated to the unrestricted current funds for $21,077 at June 30, 1999.

NOTE 12. ACCOUNTS, STUDENT LOAN NOTES AND OTHER RECEIVABLES:

The receivables in the unrestricted current funds consist primarily of amounts due from students, amounts due from sponsors of various contract courses and bookstore credit memos.

The receivables in the loan funds consist primarily of June collections due from the third party servicing organization.

A provision for doubtful accounts of $12,685 was established for the unrestricted current fund student accounts receivable based on credit losses experienced in prior years and evaluations by management of current portfolios.

NOTE 12. ACCOUNTS, STUDENT LOAN NOTES AND OTHER RECEIVABLES: (CONTINUED)

With minor exceptions, losses for student loan and other accounts receivables are not estimated or recorded in the provision for doubtful accounts. At the time a loan is considered uncollectible, it is charged to the principal of the fund from which the loan was made. Any other account receivable balance that is written off is recognized in the period in which the receivable is considered uncollectible. Based on past experience, potential losses are not deemed to be material.

NOTE 13. CONSTRUCTION IN PROGRESS AND COMMITMENTS:

The University has obtained the necessary funding for the construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that the University has sufficient resources available to satisfactorily complete the construction of such projects which are expected to be completed over the next year at an estimated total cost of approximately $954,000. Of the total approximate cost, approximately $150,000 was unexpended at June 30, 1999. The University had commitment balances of approximately $11,600 with certain vendors related to these projects.

The capital projects at June 30, 1999, which constitutes construction in progress that is to be capitalized when completed are listed below:

Project	Total Budgeted Cost	Total Expended Amount
Energy Facility Upgrade	$726,319	$717,919
Tennis Court	24,180	1,480
Facilities Roofing	89,871	78,325
Technical Support	113,482	6,754
Totals	$953,852	$804,478

At June 30, 1999, the University had in progress other capital projects which are not to be capitalized when completed. These projects are for replacements, repairs, and/or renovations to existing facilities and certain non-capital technical support. Costs incurred to date on these projects amount to approximately $96,200 at June 30, 1999, and the estimated costs to complete are approximately $6,000. At June 30, 1999, there were no outstanding commitment balances.

The University anticipates funding the capitalized and non-capitalized projects from current resources.

NOTE 14. CASH AND DEPOSITS:

All deposits of the University are under the control of the State treasurer who, by law, has sole authority for investing State funds.

The following schedule reconciles cash and deposits within the footnotes to the balance sheet amounts:

Balance Sheet		Footnotes	
Cash and Cash Equivalents	$6,682,746	Cash on Hand	$ 29,550
		Deposits Held by State Treasurer	6,653,196
	$6,682,746		$6,682,746

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina. Cash and cash equivalents reported on the balance sheet include $4,620 in unrealized appreciation as of June 30, 1999. As disclosed in Note 4, retirement of indebtedness funds include $724,500 restricted cash held by the State Treasurer for debt service reserve funds as required by the bond indenture.

NOTE 15. RELATED PARTY:

The Francis Marion University Foundation (the Foundation), a separately chartered legal entity whose activities are related to those of the University, exists primarily to provide financial assistance and other support to the University and its educational program. The financial statements of this organization are to be audited by independent auditors retained by the Foundation. The activities of this organization are not included in the University's financial statements, however, the University's statements do include those transactions between the University and the Foundation.

In conjunction with its implementation of GASB Statement No. 14, the University reviewed its relationship with the Foundation and has excluded this entity from the reporting entity because it is not financially accountable for it. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future GASB pronouncements, the Foundation may become a component unit of the University and/or part of the financial reporting entity.

NOTE 15. RELATED PARTY: (Continued)

Various financial activity occurs between the University and the Foundation. A summary of these transactions and/or balances at June 30, 1999, follows:

a)	Scholarships awarded by the University and funded by the Foundation. The University recorded these amounts as private gifts, grants, and contract revenue in the restricted current funds.	$ 292,203
b)	Grants, awards, and cost reimbursements for lectures, retreats, and competitions paid by the University and funded by the Foundation. The University recorded these amounts as private gifts, grants, and contracts revenue in the restricted current funds.	$ 37,536
c)	Personal service payments to professors holding endowed chairs paid by the University and funded by the Foundation. The University recorded these amounts as private gifts, grants, and contracts revenue in restricted current funds.	$56,000
d)	University employee time and other costs incurred by the University on behalf of the Foundation and reimbursed by the Foundation. The University recorded this amount as a reduction of institutional support expenditures in unrestricted current funds.	$21,561
e)	Portion of group life insurance premiums paid by the Foundation on behalf of University personnel	$9,138

f) Rent for a motor vehicle used by the University's President in the amount of $3500 was paid by the Foundation. Also, the Foundation is the lessee.

g) Moving expenses for the University's President in the amount of $3,500 were paid by the foundation.

h) The University entered into a loan agreement with the foundation. In the agreement the University lent the Foundation $200,000 of the University's endowment funds to invest with a guarantee of a minimum annual return of 7%. Any additional earnings will be added to the principal. The loan is due on demand.

This transaction was authorized by Section 59-101-410 of the South Carolina Code of Laws which allows the governing boards of state-supported universities to lend their endowment and auxiliary enterprise funds on deposit with the State Treasurer's Office to separately chartered not-for-profit legal entities whose existence is primarily providing financial assistance and other support to the institution and its educational program.

i) Net advance of $2,401 as of year end due from the Foundation to the University's agency fund.

The unaudited financial statements of the Foundation as of and for the year ended June 30, 1999, are presented on the next two pages.

NOTE 15. RELATED PARTY (CONTINUED)

STATEMENT OF FINANCIAL POSITION - UNAUDITED

ASSETS	
Cash	$ 20,954
Investments	8,944,911
Receivables:	
Accounts	7,411
Contributions	860,093
Assets held in trust by others	26,234
Cash surrender value of life insurance	36,786
Other assets	149,035
TOTAL ASSETS	$ 10,045,424
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	$ 3,770
Note payable	200,000
TOTAL LIABILITIES	203,770
Net Assets:	
Unrestricted	4,660,519
Temporarily restricted	1,082,356
Permanently restricted	4,098,779
TOTAL NET ASSETS	9,841,654
TOTAL LIABILITIES AND NET ASSETS	$ 10,045,424

NOTE. 15 RELATED PARTY (CONTINUED)

STATEMENT OF ACTIVITIES - UNAUDITED
FOR YEAR ENDED JUNE 30, 1999

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, gains and other support:				
Gifts and bequests	$ 474,512	$ 97,374	$ 183,723	$ 755,609
Estate trust income		24,611		24,611
Other income	7,000			7,000
Net income on investments	14,365	157,851	1,392	173,608
Net realized and unrealized gains on investments	1,043,559		61,791	1,105,350
Total	1,539,436	279,836	246,906	2,066,178
Net assests realized from restrictions	303,235	(303,235)		
Total revenues, gains and other support	1,842,671	(23,399)	246,906	2,066,178
Expenses:				
Program services	409,433			409,433
Supporting services:				
Management and general	113,656			113,656
Fundraising	9,875			9,875
Total expenses and losses	532,964			532,964
Change in net assets	1,309,707	(23,399)	246,906	1,533,214
Net assets, July 1, 1998	3,350,812	1,105,755	3,851,873	8,308,440
Net assets, June 30, 1999	$ 4,660,519	$ 1,082,356	$ 4,098,779	$ 9,841,654

NOTE 16. TRANSACTIONS WITH STATE ENTITIES:

The University had significant transactions with the State of South Carolina and various State agencies.

Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking bond trustee and investment services from the State Treasurer; and, legal services from the Attorney General.

Other services received at no cost from the various offices of the State Budget and Control Board include pension plans administration, insurance plans administration, audit services, grant services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans, employee and employer contributions, surplus property disposal fees, insurance coverage, and telephone and interagency mail services. Significant payments were also made for unemployment to the South Carolina Employment Security Commissions and workers' compensation coverage for employees to the State Accident Fund. The amounts of 1999 expenditures applicable to these transactions are not readily available.

The University purchased only nominal amounts of goods and services from other State agencies during fiscal year 1999 except for a payment of $195,000 to the Medical University of South Carolina for a cooperative nursing program which is reported in the instruction expenditure category in the unrestricted current fund.

The University provided no services free of charge to other State agencies during the fiscal year.

As a subrecipient, the University received federal grants from other State agencies, primarily the State Department of Education. Also, the University received State funds for providing contract courses to school districts and other entities.

NOTE 17. CONTINGENCIES AND LITIGATION:

The various federal programs administered by the University for fiscal year 1999 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University's management believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimate has not been recorded.

The University is a defendant in litigation arising from the conduct of its normal business. Although any litigation has an element of uncertainty, it is management's and legal counsel's opinions that the outcome of the litigation pending or threatened, or the combination thereof, will not have a materially adverse effect on the financial position of the University. The risk of material loss in excess of insurance coverage is unlikely and there is no evidence to indicate that a loss expenditure and liability should be recorded at year-end.

NOTE 18. RISK MANAGEMENT:

Insurance Coverage

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks except for collision and comprehensive coverage on certain motor vehicles. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. The costs of settled claims and claim losses have not exceeded this coverage in any of the past three years. The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits.

State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and,
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following University assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles;
4. Torts;
5. Business interruptions;
6. Natural disasters; and
7. Medical malpractice claims against covered employees.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in the IRF.

NOTE 18. RISK MANAGEMENT: (CONTINUED)

Insurance Coverage (Continued)

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. The fidelity coverage has policy limits and deductibles, some of which vary for regular and peak periods.

The University has recorded insurance premium expenditures in the applicable functional expenditure categories for its unrestricted current funds.

The University has not transferred the portion of the risk of loss related to insurance policy deductibles and policy limits for real property, its contents and other equipment, business interruption, and tort deductibles for employee fidelity bond coverage to a State or commercial insurer. The University reported expenditures of $1,500 in the current year for actual claims payments related to such retained risks of loss. The University has not reported an estimated claims loss expenditure, and the related liability at June 30, 1999, based on the requirements of GASB Statement No. 10 and No. 30 which state that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 1999 and the amount of the loss is reasonably estimable. Liabilities include an amount for incurred but not reported (IBNR) losses when it is probable a claim will be asserted. Claims liabilities when recorded are based on estimates of the ultimate cost of settling known but not paid claims and IBNR claims at June 30 using past experience adjusted for factors that would modify past experience.

In management's opinion, claims losses in excess of insurance coverage, are unlikely and, if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year end. Therefore, no loss accrual has been recorded.

Self-Insurance

The University's management believes for risks of loss the occurrence of which it considers a remote likelihood (i.e., collision and comprehensive coverage on certain motor vehicles), it is more economical to manage such risks internally and fund such losses, should they occur, from unrestricted current funds and government disaster assistance.

Claims liabilities for such uninsured risks of loss and for the uninsured portions of other risks are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities when recorded include a provision for unsettled claims, claims in the process of review reported in unrestricted current funds, and claims that have been incurred but not reported (IBNR claims) which are reported separately. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. Claims liabilities are estimated based on the estimated ultimate costs of settling the claims including the effects of inflation and other societal and economic factors and using past experience adjusted for current trends and other factors that would modify past experience. The claims liability includes deductions for estimated recoveries on settled and unsettled claims and includes estimated costs of specific, incremented claim adjustment expenditures. They are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and the economic and societal factors.

NOTE 18. RISK MANAGEMENT: (CONTINUED)

Self-Insurance (Continued)

In management's opinion, claims losses in excess of coverage are unlikely, and if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore, no loss accrual has been recorded for underinsured and uninsured losses.

NOTE 19. FUND BALANCES:

The balances of the unrestricted current funds at June 30, 1999 are as follows:

Educational and general funds	$ 445,054
Auxiliary funds	503,494
	$ 948,548

The balances of the restricted current funds at June 30, 1999 are as follows:

Grants and contracts	$ 40,391
Scholarships and student aid	110,749
Restricted for departments and other specified purposes	257,609
	$ 408,749

The balance of the loan funds at June 30, 1999 are as follows:

U.S. Government grants refundable	$1,680,427
Donor restricted	20,365
	$1,700,792

The balance of $200,000 in the endowment fund at June 30, 1999 is restricted.

The balances of the plant funds at June 30, 1999 are as follows:

Unexpended plant fund:	
Restricted	$ 972,774
Unrestricted - designated	544,312
	$1,517,086
Retirement of Indebtedness fund:	
Restricted	$1,030,247
Unrestricted – designated for capital projects funding	2,793,170
	$3,823,417

NOTE 19. PRIOR PERIOD ADJUSTMENT

Effective July 1, 1997, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools. This statement requires that most investments of governmental entities be stated at fair value rather than at cost. For internal investment pools, this Statement requires the equity position of each fund that sponsors the pool to be reported as assets in those funds. As a participant in the State's internal cash management pool, the University has been allocated unrealized gains to reflect its pro rata share of the pool.

The South Carolina State Treasurer provided management with incorrect fair value amounts as of June 30, 1997 and 1998 and management has restated its fund balances as of July 1, 1998 to reflect the correct amounts. The changes to the fund balances are as follows:

	Beginning Fund Balances as of July, 1, 1998		
	As Previously Reported	Prior Period Adjustment	As Restated
Restricted current funds	$ 344,584	$ (618)	$ 343,966
Loan funds	1,573,596	(3,145)	1,570,451
Unexpended plant funds	1,662,174	(22,469)	1,639,705
Retirement of indebtedness funds	4,404,096	(116,874)	4,287,222

Statement No. 31 allows interest and investment income and both realized and unrealized gains to be reported on a single financial statement line. For all funds, these items are reported as "Interest/Investment income – restricted" in the Statement of Changes in Fund Balances. Accordingly $160,353 in unrealized appreciation was previously reported in the Statement of Changes in Fund Balances for the year ended June 30, 1998. The restated unrealized appreciation is $30,289 for the year ended June 30, 1998.

NOTE 20. ACCOUNTING CHANGES

The University previously accounted for certain revenues received for tuition and fees based on source rather than purpose. Also, the transfers for debt service for capital leases was treated as a nonmandatory transfer to the retirement of indebtedness fund instead of a mandatory transfer. The memorandum only comparative totals in the Statement of Current Funds Revenues, Expenditures, and Other Changes for the fiscal year were restated as follows:

	As previously reported	Reclassification	As restated
REVENUES:			
Student fees	$ 11,505,420	$ 507,377	$ 12,012,797
Local grants and contracts	429,649	(404,441)	25,208
Private gifts, grants, and contracts	943,616	(54,311)	889,305
Other sources	268,342	(48,625)	219,717
EXPENDITURES AND MANDATORY TRANSFERS:			
Mandatory transfer for:			
Principal, interest, executory and other costs		(59,805)	(59,805)
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):			
Nonmandatory transfer to Plant Funds	(590,968)	59,805	(531,163)

YEAR 2000

The year 2000 ("Y2K") issue arises because most computer software programs allocate two digits to the Year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret, for example, the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The year 2000 issue may effect electronic equipment containing computer chips that have date recognition features – such as environmental systems, elevators, and vehicles – as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under the University's direct control but also the systems of other entities with which the University transacts business. Some of the University's systems/equipment affected by the year 2000 issue are critical to the continued and uninterrupted operations of the University.

Because of the unprecedented nature of the Y2K issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the University is or will be Y2K ready, the University's remediation efforts will be successful in whole or in part, or that parties with whom the University does business will be Y2K ready.

The University has internally conducted various assessments of Y2K issues. A project plan for remediation of mission critical systems, including timelines, has been developed, costs determined and resources allocated. The University's Y2K plan includes multiple review steps to achieve compliance in all critical areas. Testing of all remediated systems is part of the remediation project plan. The University has projected that the Y2K compliance will cost an estimated $52,500 and will be funded from State funds. No additional funding is budgeted for fiscal 2000. The University's management view is that Y2K funding is appropriate for the balance of the initiative.

At June 30, 1999 the University had completed the awareness, assessment, and remediation stage and was performing, or had completed, validation/testing work for mission critical systems and equipment relating to the following: Student information, Financial Assistance, Alumni, General ledger, Payroll, Foundation, Housing, Human Resources, Purchasing, Student accounts receivable, and ID card system.

The University is making contingency plans for the possible failure of computer systems and embedded devices and also for the possible interruptions to the University's business.

STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Management Letter Comments section of our report on the University for the fiscal year ended June 30, 1998 and dated August 21, 1998. We determined the University has taken adequate corrective action on the two previously reported findings.